Autumn Statement 2016

Our post-Brexit forecasts may be too gloomy, the OBR admits

Economy

Officials forced to make broad judgements, as Eurosceptic MPs say they are protecting their backs

By **Steven Swinford** *and* **Christopher Hope**

BRITAIN's official economic forecaster admits it made a series of "gloomy" Brexit warnings without any information about the Government's plans.

The Office for Budget Responsibility (OBR) said it had been forced to make a series of "broad-brush judgements" because ministers refused to provide any information about the Government's "goals and expectation".

Theresa May has repeatedly refused to disclose information about the Government's negotiating strategy amid concerns that it would be the "best way to get the worst result for Britain" as it leaves the EU.

The OBR was forced to make a series of assumptions about Mrs May's approach, which were yesterday branded "totally wrong", while eurosceptic Conservative MPs highlighted the fact that previous forecasts by the OBR for economic growth have been "notoriously" inaccurate.

The OBR's post-Brexit forecast included an assumption that the pace of import and export growth will slow for a decade as the Government negotiates new trading regimes, causing the value of the pound to continue to fall and household incomes to drop.

It claimed that economic growth will be 2.4 per cent lower over the next five years, while national income will fall from 2.1 per cent in 2016 to 1.4 per cent next year, significantly lower than previously forecast.

It also suggests that inflation will rise from 0.9 per cent to 2.6 per cent in mid-2018, putting greater pressure on household finances and reducing people's spending power. A total of 100,000 more people will be unemployed as a result of Brexit, it suggests.

The OBR claimed the overall cost of Brexit will mean £58.7 billion worth of additional borrowing over the next five years, including £26.2 billion because of the economic "slowdown" and £15 billion because of lower migration.

Robert Chote, the OBR's chairman, admitted there is a 50 per cent chance that the forecast is "too gloomy".

However, the OBR said its forecast is justified because it is based on existing trends, such as the fall in the value of the pound. It suggested the fallout from Brexit could be even more severe.

It said: "In the near term, as the negotiations get under way, we assume that GDP growth will continue to slow into next year as uncertainty leads firms to delay investment and as consumers are squeezed by higher import prices, thanks to the fall in the pound.

"But we do not assume that firms shed jobs more aggressively or that consumers increase precautionary saving, both of which are downside risks if the path to Brexit is bumpy."

However, it conceded: "Our economy forecast is not based on a precise prediction of the outcome of the Brexit negotiations, but rather on broad-brush judgements consistent with a range of possible outcomes.

"We have been given no information about the Government's goals and economic and fiscal outlook expectations for the negotiations that is not already in the public domain. And we would not in any event wish to base our forecast on assumptions we could not be transparent about."

Peter Bone, a eurosceptic Conservative MP, said: "The forecast is gloomy because if they are gloomy and it is better, then they don't get as much flak as if it is optimistic and they fail.

"They could not produce a forecast based on what appears to be happening in the economy with inflation falling and growth up. They could not do that because it would mean that all they did before was just so totally wrong."

Bernard Jenkin MP, who helped lead the Vote Leave campaign, said: "The Government must accept OBR forecasts. But if they turn out to be too pessimistic, then the UK will be in an even stronger position."

Steve Baker, a prominent Eurosceptic and chairman of the Conservatives' European Research Group, added: "Recent pessimistic economic forecasts have been consistently wrong. I welcome this higher forecast for the current year than pre-vote and I welcome confirmation there will be no post-vote recession after all."

The Chancellor announced that the Government will put the public finances back in the black "as early as possible" in the next Parliament as part of a new draft Charter for Budget Responsibility.

However, Mr Chote said that his plans will pose "quite a challenge" for Mr Hammond if he needs to borrow more during this Parliament.

He said the Government will face mounting pressure to increase spending on an ageing population, and that the number of people set to receive the state pension could rise by about nine per cent in the next Parliament.

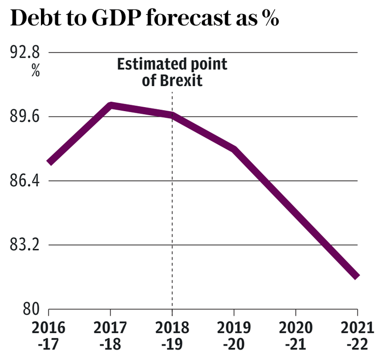
The OBR forecasts the Chancellor to overshoot previous targets for public sector borrowing for this year, revising its outlook from £55.5 billion to £68.2 billion for 2016-17.

It also hiked forecasts from £38.8 billion to £59 billion for 2017-18, from £21.4 billion to £46.5 billion for 2018-19, from a surplus of £10.4 billion to a deficit of £21.9 billion for 2019-20, from a surplus of £11 billion to a deficit of £20.7 billion for 2020-21 and a deficit of £17.2 billion in 2021-22.

The OBR also pencilled in people to be about three per cent poorer compared to its March forecasts.

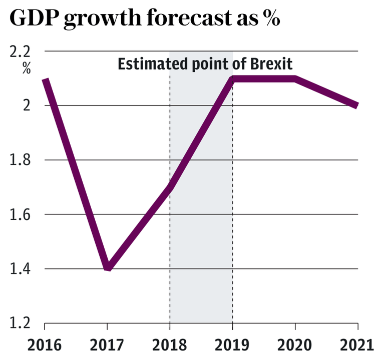
The Government's own analysis of the impact of its statement showed that Mr Hammond's policies have had almost no impact on the incomes of most households. It shows that lower earners have seen their incomes rise by a maximum of 0.2 per cent, while there is little income difference for most other households.

Debt to GDP forecast as %



SOURCE: HM TREASURY

GDP growth forecast as %



SOURCE: HM TREASURY

Philip Hammond says the Government will put the public finances back in the black

EDDIE MULHOLLAND FOR THE TELEGRAPH

Forecasts OBR predicting higher borrowing, deeper deficit and blow to consumers

The OBR said the Government will have to borrow £122bn more over the five years to 2020-21. It said that £58.7bn of this was directly attributable to the Brexit vote.

However, its calculations did not include any gains from ceasing to pay contributions to the EU's budget, currently running at around £13bn a year.

On the public finances, the OBR forecast that the Chancellor would overshoot previous targets for public sector borrowing this year, revising its outlook from £55.5bn to £68.2bn for 2016-17.

£58bn extra borrowing because of Brexit

It also raised forecasts from £38.8bn to £59bn for 2017-18, from £21.4bn to £46.5bn for 2018-19, from a surplus of £10.4bn to a deficit of £21.9bn for 2019-20, from a surplus of £11bn to a deficit of £20.7bn for 2020-21 and a deficit of £17.2bn in 2021-22.

The OBR also pencilled in people to be around 3 per cent poorer compared with its March forecasts. It said consumers would suffer a blow to their real consumption wage – a measure of wages adjusted for inflation – as weak productivity affects earnings and the Brexit-hit pound pushes up the cost of living.

The forecaster said that the negotiation of new trading arrangements after Brexit will "slow the pace of import and export growth for the next 10 years".

This is despite government insiders believing that Britain will be able to announce a series of free trade deals on the day that it finally leaves the EU, scheduled to be in March 2019.

The OBR said that the Brexit vote and concern over the upcoming Article 50 negotiations "have generated uncertainty for firms that will lead to some investment being postponed or cancelled".

2% rise in consumer prices due to weak pound

The independent forecaster said it had "revised business investment down" relative to its previous predictions.

The OBR also said that the fall in the pound will "squeeze households' real incomes by pushing up import prices".

It said that the pound's fall will "add almost 2 per cent to the level of consumer prices over the next two years".

Migration to fall, but not enough to hit Tory target

Immigration

By **Ben Riley-Smith**
ASSISTANT POLITICAL EDITOR

BRITAIN'S net migration will be 80,000 a year lower after leaving the EU, the country's independent forecaster has said.

The Office of Budget Responsibility (OBR) said net immigration will be 185,000 a year, rather than the 265,000 a year that was expected.

The news was welcomed by Eurosceptics who argued it "vindicated" their claims during the referendum that exiting the EU would help curb migration. But there will be a knock-on effect to the economy, with an extra £16 billion of borrowing needed until 2020 to cover the impact of falling migration, according to the OBR.

Despite the reduction in immigration, the Tories are still forecast to miss their target of lowering net migration to below 100,000. Philip Hammond, the Chancellor, yesterday admitted that a "longer time frame" than five years was needed to hit the target.

It is one of the first times a Tory frontbencher has conceded that net migration will not drop below 100,000 by the 2020 election.

During the referendum, those arguing to leave the EU put the ability to bring down migration at the heart of their pitch to voters.

Boris Johnson and Michael Gove repeatedly attacked the Tory leadership for saying the pledge could be met while remaining in the EU.

For the first time since the Brexit vote, the OBR has disclosed what it expects to happen to immigration in the coming years.

Leaving the EU will bring "lower net migration than would otherwise have been the case", it said. There would be "tighter" controls on migration and the "pull factors attracting migrants to the UK may be less powerful than previously". Net migration will be 80,000 a year lower than expected as a result, the OBR said.

Without the Brexit vote, net migration was expected to drop to 265,000 a year beyond 2020. Instead, it will fall to 185,000 a year. Andrew Bridgen, the Tory MP for North West Leicestershire, who backed Brexit, said the lower immigration forecast "vindicates the claims made by the Leave side in the referendum debate".

Lord Green of Deddington, the chairman of Migration Watch, said: "If the main reduction in immigration is achieved by cutting out low-paid immigrants from the EU, as we have proposed, there is no reason to think that there will be a significant reduction in revenue because these workers pay little or no tax."

The projections do not specifically take into account a new work permits scheme being planned by the Home Office, the details of which are yet to be announced. Mrs May has repeatedly said that Britain voted for "control" over its borders at the referendum – suggesting she backs a yearly cap on the number of EU nationals who can move to the UK.

Speaking in the House of Commons, Mr Hammond appeared to concede that the Government would miss its ambition to bring net migration below 100,000 a year before the 2020 general election. Alison McGovern, the Labour MP for Wirral South, asked whether Mr Hammond had asked the OBR to "adjust" its migration forecasts because they showed the Tory target will be missed.

He responded: "No. The Prime Minister's been very clear that it remains her target to achieve immigration reduced to the tens of thousands. But she's also been clear that it will take time to achieve."

Estimated net migration post-2020

Without Brexit vote
265,000
Office for Budget Responsibility's forecast for long-term net migration

With Brexit vote
185,000
The OBR's revised forecast for long-term net migration after Brexit

Extra £1bn to EU because of weak pound

Brussels bill

By **Kate McCann**
SENIOR POLITICAL CORRESPONDENT

THE UK will have to pay almost £1 billion extra to the EU in the build-up to Brexit, Autumn Statement analysis has revealed.

As a result of the weaker pound following the EU referendum, the Office for Budget Responsibility (OBR) predicts that the UK will have to hand over £0.8 billion more in 2018-19 than was previously forecast. If the UK is forced to continue paying into the EU or if Brexit takes longer than planned, the figure could rise, as payments will increase again by £0.8 billion in 2019-20.

The country is expected to transfer £10.2 billion to EU institutions next year – £0.7 billion more than expected. In 2018-19 that increases to £12.5 billion, largely due to the weak pound. By 2019-20 the UK's contribution to the EU will be £13 billion, rising again to £13.4 billion in 2020-21 if we are still paying in.

The OBR has assumed that sterling will not recover to post EU-referendum levels for the purposes of the calculation, it states in its analysis.

It said: "Sterling depreciation since the referendum, which we assume will persist, has increased spending by £0.8 billion a year from 2018-19 on."

John Longworth, co-chairman of Leave Means Leave, said: "The whole thing shows the absurdity and cost of our contributions, which would be better invested in making the UK the best place in the world to do business and… this would generate taxes to fund public services like the NHS and defence."

Debt expected to hit £2 trillion as Osborne's pledge for 2020 surplus is finally ditched

The deficit

By **James Kirkup**

A PROMISE to balance the budget by the end of the decade was formally ditched yesterday as Philip Hammond outlined plans that will see the national debt rise to almost £2 trillion and hit a level not seen for more than 50 years.

As official forecasts showed a reduction in growth and tax revenues, Mr Hammond conceded that borrowing, and the austerity policies to pay for it, will continue after the 2020 election.

He told MPs he was ending George Osborne's commitment to run a surplus by April 2020 "in view of the uncertainty facing the economy, and in the face of slower growth forecasts".

Mr Osborne predicted that by the next general election, the Government would be running a £10 billion surplus, which would have funded considerable tax cuts. But the Office for Budget Responsibility said the outlook had worsened so much that Government will have to borrow £21 billion in 2019-20.

In all, the Chancellor set out plans to borrow £122 billion more than the Government had previously committed to, and he went for a less precise pledge to balance the books during the next parliament (2020-25). However, he did say that, although forecasts showed the national debt continuing to rise for now, it will have started to fall by 2020.

The national debt, the accumulated stock of borrowing that governments do when they run an annual deficit, currently stands at £1.725 trillion, and Mr Hammond will add more than £200 billion to it. It will peak next year at 90.2 per cent of Gross Domestic Product, the highest level since 1964.

John Hawksworth, chief economist the PwC consultancy, said Mr Hammond's plans for borrowing would give him the scope to support the economy. "This gives him some extra ammunition to combat any larger Brexit-related economic shock," he said.

But the fact that the Chancellor is still aiming to eliminate the deficit in the next Parliament means austerity will extend well into the 2020s.

Mark Littlewood of the free-market Institute for Economic Affairs, said Mr Hammond was saddling future generations with the cost of his borrowing.

He said: "Fiscal rules to this government, sadly, seem to be no more than vague aspirations which are abandoned with impunity."